

December 2, 2004



Financial Management

Contracts Classified as
Unreconcilable by the Defense
Finance and Accounting Service
(D-2005-022)

Department of Defense
Office of the Inspector General

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Article I, Section 9

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Acronyms

| | |
|-------|---|
| ACO | Administrative Contracting Officer |
| ACRN | Accounting Classification Reference Number |
| AMCOM | U.S. Army Aviation & Missile Command |
| DCAA | Defense Contract Audit Agency |
| DCMA | Defense Contract Management Agency |
| DFAS | Defense Finance and Accounting Service |
| MOCAS | Mechanization of Contract Administration Services |
| PCO | Procurement Contracting Officer |
| RAID | Request and Inspection of Documents |
| SAIC | Science Applications International Corporation |
| ULO | Unliquidated Obligation |



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

December 2, 2004

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE
(COMPTROLLER)/CHIEF FINANCIAL OFFICER
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE CONTRACT MANAGEMENT
AGENCY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Report on Contracts Classified as Unreconcilable by the Defense Finance
and Accounting Service (Contract No. DAAH01-92-C-R399) (Report
No. D-2005-022)

We are providing this report for your use and information. We considered management comments on a draft of this report when preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. James L. Kornides at (614) 751-1400, extension 211 or Mr. John K. Issel at (614) 751-1400, extension 212. See Appendix B for the report distribution. The team members are listed inside the back cover.

Paul J. Granetto, CPA
Assistant Inspector General
Defense Financial Auditing
Service

Office of the Inspector General of the Department of Defense

Report No. D-2005-022

Project No. D2004FJ-0094

December 2, 2004

Contracts Classified as Unreconcilable by the Defense Finance and Accounting Service (Contract No. DAAH01-92-C-R399)

Executive Summary

Who Should Read This Report and Why? Defense personnel in the areas of acquisition and finance and accounting who are responsible for maintaining and closing out contracts, should read this report. It discusses contracts considered “out of balance” and “unreconcilable” because of lost documentation.

Background. Army Contract No. DAAH01-92-CR399 was awarded in 1992 to procure systems and other engineering support for the Army. Defense Finance and Accounting Service Columbus, PricewaterhouseCoopers, Tessada Associates and the Defense Contract Audit Agency made several attempts to reconcile the contract, but it was never fully reconciled because 62 essential documents were missing. A full reconciliation includes a review of all modifications and disbursements and is a requirement Defense Finance and Accounting Service Columbus must meet before closing a contract.

Results. As a result of additional follow-up work we performed at the contractor’s facility, we located the missing documentation and provided it to the Defense Finance and Accounting Service Columbus. Additionally, we identified a potential \$12,604 to \$231,219 overpayment to the contractor for which collection efforts had not been initiated because the contract could not be fully reconciled until the missing documentation was obtained.

Now that the missing documentation has been provided to the Defense Finance and Accounting Service Columbus; the contract needs to be reconciled, the potential overpayment confirmed, and actions taken to recover any overpayment. Only then should the Defense Finance and Accounting Service Columbus proceed to close this contract. The Under Secretary of Defense (Comptroller) is in the process of issuing new guidance to improve the likelihood that missing documentation on other contracts is located.

Management Comments. The Deputy Director of Commercial Pay Services at the Defense Finance and Accounting Service Columbus concurred with the recommendations; therefore, no further comments are required. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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Background

Army contract DAAH01-92-C-R399 was awarded to Science Applications International Corporation (SAIC) on August 28, 1992, to provide systems and software engineering support for the U.S. Army. The procuring contract office was located at the U.S. Army Aviation & Missile Command (AMCOM) in Huntsville, Alabama. The Defense Contract Management Agency (DCMA) office in San Diego, California, administered the contract. The Army made 388 modifications to the contract during its life.

The Army obligated a total of \$130,914,071 on the contract through modification number P00388, which was the final modification number. The Defense Finance and Accounting Service (DFAS) Columbus used every available accounting classification reference number (ACRN) in the Mechanization of Contract Administration Services (MOCAS) system to track modifications and funding.

At the time of the audit, the contract had an unliquidated obligation (ULO) balance of \$3,991,168 in the MOCAS system at the contract level. According to the Administrative Contracting officer (ACO), there were no outstanding bills awaiting payment. However, there were 206 ACRNs with negative balances. Therefore, the contract could not be closed in the MOCAS system until a full reconciliation was performed.

Several attempts to reconcile contract DAAH01-92-C-R399 were made during its life, with the first occurring in 1998. Many of these efforts were made to identify the adjustments that were needed to prevent funds from canceling on the contract. Besides DFAS Columbus, outside contractors PricewaterhouseCoopers and Tessada Associates, and the Defense Contract Audit Agency (DCAA) have all been a part of the efforts to reconcile the contract. However, none of those prior reconciliation efforts were considered a “full reconciliation.” A full reconciliation is an exhaustive reconciliation that includes a review of all modifications and disbursements, and is the type of reconciliation that is required to close contracts.

In an attempt to perform a full reconciliation, DFAS Columbus personnel performed a “Request and Inspection of Documents” (RAID) in July 2003. However, the critical documents required to perform a full reconciliation could not be found. In total, 14 modifications and 48 vouchers paid by DFAS Columbus were missing. The combined dollar value of the missing documents was \$20,305,455.

In accordance with “Unreconcilable Contract Guidance,” DFAS Columbus attempted to contact the ACO, the Procurement Contracting Officer (PCO), and the DFAS St. Louis accounting station to request assistance in obtaining missing documentation.

DFAS Columbus was able to obtain missing modifications or was provided documentation to show that the modifications were either canceled or never issued. However, DFAS Columbus efforts were not successful in obtaining the missing invoices required to reconcile the contract.

Therefore, on January 30, 2004, DFAS Columbus notified our office that Army contract number DAAH01-92-C-R399 was unreconcilable because of the missing documentation.

The Office of the Inspector General of the Department of Defense reached an agreement with the Under Secretary of Defense (Comptroller)/Chief Financial Officer on November 14, 2003. We agreed that when DFAS Columbus determines that a contract is unreconcilable because of missing documentation, our office will review the adequacy of actions taken by DFAS Columbus and DCMA activities to obtain the documents needed to fully reconcile the completed contract to allow closure in the MOCAS system. If our office agrees with the assessment of DFAS Columbus and DCMA that the contract is unreconcilable, DFAS Columbus will forward the contract closeout summary to the Director of DFAS requesting approval to close the contract in the MOCAS system.

Objectives

Our overall objective was to review the actions DFAS Columbus and DCMA activities took in attempting to locate missing documentation and reconcile contracts that were considered unreconcilable. See Appendix A for a discussion of the audit scope and methodology.

Contract No. DAAH01-92-C-R399

On January 30, 2004, the Defense Finance and Accounting Service Columbus notified our office that they had determined that Army contract number DAAH01-92-C-R399 was unreconcilable due to missing documentation and all possible actions to locate the missing documentation had been taken.

During the audit, we located all of the missing documentation and provided it to the Defense Finance and Accounting Service Columbus. Additionally, we identified a potential overpayment to the contractor between \$12,604 and \$231,219 for which collection efforts had not been initiated because the contract could not be fully reconciled until the missing documentation was obtained.

Now that the missing documentation has been provided to the Defense Finance and Accounting Service Columbus; the contract needs to be reconciled, the potential overpayment confirmed, and actions taken to recover any overpayment. Only then should Defense Finance and Accounting Service Columbus proceed to close this contract.

The Under Secretary of Defense (Comptroller) is in the process of issuing new guidance to improve the likelihood that missing documentation on other contracts is located.

Documentation Needed for Contract Closure

Army contract DAAH01-92-C-R399 had been awaiting closure in MOCAS for more than 2 years primarily because 48 invoices, valued at \$20.3 million, could not be located. DFAS Columbus needed the invoices to reconcile DoD accounting documentation to the payment information in the MOCAS system. This internal control process was designed to ensure that payments made to contractors are valid, and any overpayments are recovered.

Actions Taken on Missing Documents

DFAS Columbus personnel contacted personnel in DCMA San Diego, AMCOM, and DFAS St. Louis in July and August 2003 to locate missing documentation related to Army contract number DAAH01-92-C-R399. DCMA San Diego personnel told DFAS Columbus that no information could be located on the contract.

Although the PCO at AMCOM did provide some details on missing modifications, DFAS Columbus was not able to obtain assistance from the accounting station at DFAS St. Louis because data related to the contract were no longer available in the accounting system. During the audit, DFAS Columbus tried to contact other accounting stations associated with the contract to get

information about missing documentation but either received a similar response that data were no longer available, or received no response at all.

ACOs at DCMA activities are responsible for the closeout of contracts. Their assistance to DFAS Columbus is critical to the closing of contracts in MOCAS that are unresolved for excessive periods because the documentation that could be used to resolve out of balance conditions is missing.

The San Diego DCMA office was initially not very helpful when DFAS Columbus requested information on the contract. DFAS Columbus conversation records indicate the San Diego DCMA office was initially contacted in August 2003 and the ACO responded that no additional information could be located on the contract.

At our request, DFAS Columbus contacted the San Diego DCMA office again on February 27, 2004, via email, in an attempt to locate missing documents. At that point, 6 months after the initial inquiry, the ACO indicated that the contract and all modifications were available but locating missing invoices would require contractor assistance. The ACO added that the contractor was reluctant to provide that assistance.

When we visited the ACO at the San Diego DCMA office, we obtained their assistance as well as that of the contractor and were able to obtain the needed documents. The documents are listed in the table below.

| Missing Vouchers and Location of Data Found | | | | | |
|--|----------------------|------------------------|------------------------------|------------------------|------------------------|
| <u>Voucher Number</u> | <u>Amount</u> | <u>Location</u> | <u>Voucher Number</u> | <u>Amount</u> | <u>Location</u> |
| C02823 | \$ 686,909.93 | SAIC | C56609 | 175,449.39 | SAIC |
| C02823 | 455,476.85 | SAIC | C58137 | 695,289.68 | SAIC |
| C06352 | 103,656.44 | SAIC | C58650 | 659,768.00 | SAIC |
| C06995 | 6,399.12 | SAIC | C59450 | 18,706.46 | SAIC |
| C10660 | 5,911.16 | SAIC | C61835 | 639,643.88 | SAIC |
| C11047 | 838,330.54 | SAIC | C68194 | 623,577.17 | SAIC |
| C16915 | 75,931.07 | SAIC | C68694 | 1,216,150.18 | SAIC |
| C19974 | 2,915.74 | SAIC | C69885 | 1,502,934.64 | SAIC |
| C20260 | 443,075.38 | SAIC | C73217 | 970,519.84 | SAIC |
| C21301 | 1,507,816.39 | SAIC | C73217 | 12,994.86 | SAIC |
| C25152 | 13,103.26 | SAIC | C73364 | 198,920.61 | SAIC |
| C29795 | 60,744.14 | SAIC | C90851 | 2,646,792.00 | SAIC |
| C31480 | 125,834.01 | SAIC | C94495 | 50,939.37 | SAIC |
| C31760 | 1,787.46 | SAIC | C95110 | 14,099.18 | SAIC |
| C32646 | 56,275.51 | SAIC | C96885 | 1,137,416.85 | SAIC |
| C36372 | 5,822.45 | SAIC | C97219 | 38,092.02 | SAIC |
| C38616 | 18,465.50 | SAIC | D39163 | 446,025.76 | SAIC |
| C39702 | 738,994.00 | SAIC | E0216 | 165,640.96 | SAIC |
| C50245 | 715,590.15 | SAIC | E0798 | 41,184.41 | SAIC |
| C50342 | 603,137.20 | SAIC | E3479 | 104,670.10 | SAIC |
| C50623 | 68,102.11 | SAIC | E5610 | 570.88 | SAIC |
| C51889 | 311,583.97 | SAIC | E6143 | 397.00 | SAIC |
| C53227 | 113,581.07 | SAIC | E8529 | 618,273.39 | SAIC |
| C56528 | 340,554.83 | SAIC | E8785 | 1,027,400.24 | SAIC |
| | | | Total | \$20,305,455.15 | |

We asked management personnel in the San Diego DCMA office why the assistance it provided us was not provided to DFAS Columbus earlier. They stated that they believed that the need to research and provide additional documentation was not required because both DCMA and DFAS Columbus had declared the contract unreconcilable. Contractor personnel indicated they had the same understanding.

The contractor did not want to use limited resources to search archived files for the missing invoices if DFAS Columbus had already determined the contract was not reconcilable.

At the time of the audit, there was limited guidance on actions an entity should take to find missing documentation on unreconcilable contracts. A local DFAS Columbus publication, "Unreconcilable Contract Guidance," was the only policy. This guidance was only binding for personnel at DFAS Columbus. The Office of the Under Secretary of Defense (Comptroller) was in the process of revising the DoD Financial Management Regulation, volume 10, chapter 20 to incorporate provisions for actions needed throughout DoD to obtain missing documents on contracts classified as unreconcilable; therefore, we did not make recommendations to publish new guidance.

Unreconcilable Contract Guidance Improvements. During the audit, we suggested some changes to improve the effectiveness of the DFAS Columbus process of searching for missing documents. The existing DFAS Columbus guidance contained a certification process that did not provide a complete and valid audit trail. Therefore, as part of our effort to obtain the missing documents, we expanded the list of entities to whom we sent the certification memorandum, and specifically addressed each DoD activity that was a potential source of the documentation needed. It is important that each DoD activity whose assistance is requested in obtaining missing documentation respond with a signed certification disclosing whether documentation is available. The certification letters we used were specifically addressed to the ACO, PCO, accounting station, records holding activity, DFAS Columbus reconciliation branch, and department-level Military representatives. In addition, we are recommending that DFAS Columbus design a checklist to track the entire process of missing documentation searches. This would help ensure all possible sources of information have been considered. DFAS Columbus accepted our recommended changes and stated it plans to incorporate them into revised guidance.

Potential Contractor Overpayment

During the audit, we obtained a copy of a Defense Contract Audit Agency (DCAA) report on the contract DAAH01-92-C-R399, report number 4171-2003B17330001, dated April 8, 2003, which was a DCAA review requested by the San Diego DCMA office. DCAA reviewed contractor billings and payments received between August 28, 1992, and March 31, 2001. DCAA reported that the contractor had billed \$127,732,309 and had been paid \$127,744,914, indicating a potential overpayment of \$12,604. DCAA was not able to reconcile the amount recorded in MOCAS. The DCAA report was provided to the San Diego DCMA

office and DFAS Columbus on April 9, 2003. However, neither the San Diego DCMA office nor DFAS Columbus initiated collection efforts for the overpayment identified by DCAA.

Documentation showed that the ACO did not initiate collection because she wanted to wait until the ongoing reconciliation efforts were completed. According to DFAS Columbus personnel, they had not initiated recovery action because of their inability to independently verify the overpayment with supporting documentation in MOCAS. MOCAS records at the time of the DCAA review indicated that total MOCAS disbursements were \$127,963,528 (versus the \$127,744, 914 that DCAA reported), indicating a potential overpayment of \$231,219. Until the contract is fully reconciled, the possibility of an overpayment between \$12,604 and \$231,219 remains.

Other Matters of Interest

Companion Contract to Army Contract DAAH01-92-C-R399. Because all available ACRNs had been used, the Army wrote a new contract to allow continued work by SAIC. The Army issued contract number DAAH01-97-C-0330 on September 12, 1997. According to the ACO, both contracts were completed on September 30, 2001, using modification P00157. In order to properly close the new contract, DAAH01-92-C-R399 (the original contract) files need to be maintained because they contain essential contractual information.

Accountable Stations and Funding Activities. Contract DAAH01-92-C-R399 was assigned to the following accounting stations.

1. DFAS, St. Louis, Missouri
2. DFAS, Charleston, South Carolina
3. DFAS, Rock Island, Illinois
4. DFAS, Indianapolis, Indiana
5. DFAS, Dayton, Ohio
6. DFAS, Lawton, Oklahoma
7. DFAS, Seaside, California
8. DFAS, Rome, New York
9. DFAS, Norfolk, Virginia
10. DFAS, Columbus, Ohio
11. DFAS, Limestone, Maine
12. Eighth U.S. Army, Korea

In addition to the 12 accounting stations, we identified approximately 60 activities funding this contract. DFAS Columbus needs to contact each accounting station and funding activity to ensure that the contract is closed in both MOCAS and by

all applicable DoD Components. This report addresses only the closure of contract number DAAH01-92-C-R399, and not the new contract.

Actions Needed to Close Contract

Now that previously missing documents have been provided to DFAS Columbus, it needs to immediately perform a complete and full reconciliation of this contract, making both internal and external adjustments as needed. Once the adjustments are made and any potential overpayment identified and recovery undertaken, DFAS Columbus should proceed with final closure of this contract.

Recommendations and Management Comments

We recommend that the Director, Defense Finance and Accounting Service Columbus:

1. Perform a final contract close out reconciliation on Contract No. DAAH01-92-C-R399, using the previously missing documents provided.

Management Comments. The Deputy Director of Commercial Pay Services concurred with the recommendation and stated that the contract will be assigned to a contractor supporting the Commercial Pay Services Contract Reconciliation office.

2. Confirm the amount of potential overpayment provided to the contractor and initiate recovery actions, as necessary.

Management Comments. The Deputy Director of Commercial Pay Services concurred with the recommendation and stated that confirmation of any money owed will be dependent upon completion of the full reconciliation.

3. Adjust the Mechanization of Contract Administration Services system using internal voucher entries, as needed, and proceed with the final closure process on this contract.

Management Comments. The Deputy Director of Commercial Pay Services concurred with the recommendation and stated that any adjustments required will be prepared at the completion of the reconciliation.

4. For other unreconcilable contracts, expand the distribution list of the DFAS certification memorandum and specifically address each activity that is a potential source of the various types of documentation needed, and design a checklist to track the entire process of missing documentation searches.

Management Comments. The Deputy Director of Commercial Pay Services concurred with the recommendation. The Deputy Director stated that the Unreconcilable Contract Guidance that the Defense Finance and Accounting Service Columbus issued and subsequently implemented in July 2004 includes the certification letters and an unreconcilable contract checklist.

Appendix A. Scope and Methodology

We reviewed the steps taken by DFAS Columbus and DCMA in their attempt to reconcile contracts considered unreconcilable. The contract was valued at \$130.9 million, although the exact figure cannot be verified until a complete reconciliation is performed. We conducted interviews and reviewed records maintained by DFAS Columbus, DCMA San Diego, DFAS St. Louis, and AMCOM. The records included all relevant correspondence, emails, and MOCAS system data, as well as contractor system data.

We performed this audit from February 2004 through July 2004 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We did not evaluate the general and application controls of the MOCAS system that processes disbursement and obligation data, although we used data produced by MOCAS to conduct the audit. We did not evaluate the controls because the objective of this audit was to review the actions taken to locate missing contract documents. Not evaluating the controls did not affect the results of the audit.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report focuses on the area of Financial Management by providing coverage of DoD efforts to confront and transform pervasive, decades-old financial management systems.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We did not review the management control program because the audit focused only on actions taken to obtain missing contract documents.

Prior Coverage

During the last 5 years, no prior coverage had been conducted on contract number DAAH01-92-C-R399, other than the DCAA payment review discussed previously in the finding portion of this report.

Appendix B. Report Distribution

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Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
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House Subcommittee on Defense, Committee on Appropriations

House Committee on Armed Services

House Committee on Government Reform

House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform

House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform

House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
P.O. BOX 182317
COLUMBUS, OHIO 43218-2317

DFAS-CS/CO

OCT 15 2004

MEMORANDUM FOR OFFICE OF THE DEPUTY INSPECTOR GENERAL FOR
AUDITING, DEPARTMENT OF DEFENSE, DEFENSE
FINANCIAL SERVICES

SUBJECT: Department of Defense Inspector General Draft Report, Project No. D2004FI-0094,
"Amended Report on Contracts Classified as Unreconcilable by the Defense
Finance and Accounting Service (Contract No. DAAH01-92-CR399),
dated September 2, 2004

Management comments to Recommendations 1, 2, 3, and 4 cited in the subject draft audit
report are being provided.

My point of contact for additional information is Ms. Lisa Levy, DFAS-CSQA/CO. She
may be reached at 614-693-7398 or DSN 869-7398.

Martha J. Stearns
Deputy Director
Commercial Pay Services

Attachment:
As stated

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**Management Comments to the Department of Defense Inspector General
Draft Report, Project No. D2004FJ-0094, "Amended Report on Contracts
Classified as Unreconcilable by the Defense Finance and Accounting Service
(Contract No. DAAH01-92-CR399), dated September 2, 2004**

We recommend that the Director, Defense Finance and Accounting Service Columbus:

Recommendation 1: Perform a final contract close out reconciliation on Contract No. DAAH01-92-CR399, using the previously missing documents provided.

Management Comments: Concur. Contract number DAAH01-92-CR399 has been logged into the mail log and will be assigned to a contractor supporting the Commercial Pay Services Contract Reconciliation office. The estimated completion date is September 30, 2005. However, this could change depending on the budgeted hours, which is determined by the size and complexity of the contract. Other factors affecting the estimated completion date are the time required to obtain canceled funds approval, replacement funds, or current year funds if needed.

Estimated Completion Date: September 30, 2005.

Recommendation 2: Confirm the amount of potential overpayment provided to the contractor and initiate recovery actions, as necessary.

Management Comments: Concur. Confirmation of any money owed to the Government is dependent upon completion of a full reconciliation and may or may not be determinable until completion of the reconciliation.

Estimated Completion Date: September 30, 2005.

Recommendation 3: Adjust the Mechanization of Contract Administration Services system using internal voucher entries, as needed, and proceed with the final closure process on this contract.

Management Comments: Concur. Any adjustments required will be prepared at completion of the reconciliation.

Estimated Completion Date: September 30, 2005.

Recommendation 4: For other unreconcilable contracts, expand the distribution list of the DFAS certification memorandum and specifically address each activity that is a potential source of the various types of documentation needed, and design a checklist to track the entire process of missing documentation searches.

Management Comments: Concur. We concur that all known activities associated with a potentially unreconcilable contract should be contacted by the Defense Finance and Accounting Service (DFAS) Columbus, and a checklist should be designed to track the entire process of missing documentation searches. Unreconcilable Contract Guidance was issued and implemented in July 2004 that included an unreconcilable checklist and letters for the administrative contracting officer, procurement contracting officer, accounting station, records holding activity and the DFAS Columbus reconciliation branch. A department-level military certification letter is currently being used only when all other means of obtaining documentation have been exhausted. This guidance was the result of a working group composed of representatives from Army, Navy, Air Force, Defense Contract Management Agency, DFAS and the office of legal counsel. The guidance was also coordinated with the Department of Defense Inspector General.

Estimated Completion Date: This recommendation is considered closed. No further action is required.

Team Members

The Office of the Deputy Inspector General for Auditing of the Department of Defense, Defense Financial and Auditing Service Directorate prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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